

ORIGINAL

Decision 83 09 012 SEP 7 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of SIERRA PACIFIC POWER COMPANY)	
for authorization to borrow from)	
Humboldt County, Nevada funds)	Application 83-07-55
pursuant to a Financing Agreement)	(Filed July 27, 1983)
under which Humboldt County will)	
issue Floating Rate Monthly Demand)	
Pollution Control Revenue Bonds.)	
)	

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851 through 853, for the following:

1. To enter into a financing agreement on essentially the terms set forth in the Financing Agreement (Agreement) attached to the application;
2. To execute the documents required in connection with that Agreement; and
3. To use the proceeds to reimburse Sierra Pacific's treasury for construction expenditures for certain pollution control facilities in Humboldt County, Nevada and to finance in part Sierra Pacific's construction program.

Summary of Decision

This decision grants Sierra Pacific the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of July 29, 1983. No protests have been received.

Sierra Pacific, a Nevada corporation, provides electric utility service in California and electric, gas, and water utility service in Nevada.

For the 12 months ended May 31, 1983, Sierra Pacific reports in its Comparative Income Statement, shown as part of Appendix B attached to the application, that it generated total operating revenues of \$337,256,000 and net income of \$29,235,000. The company reports that it derived about \$40,530,000 or 12.45% of its revenue from California operations.

Also shown as part of Appendix A is Sierra Pacific's Comparative Balance Sheet as of May 31, 1983 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$689,876,000
Nonutility investments	13,609,000
Current Assets	64,404,000
Deferred Debits	<u>20,499,000</u>
Total	\$788,388,000
<u>Liabilities and Equity</u>	
Common Equity	\$233,499,000
Preferred Stock	69,025,000
Long-Term Debt	285,765,000
Current Liabilities	79,859,000
Deferred Credits	<u>120,240,000</u>
Total	\$788,388,000

Under the proposed Financing Agreement, dated as of September 1, 1983 between Sierra Pacific and Humboldt County, Nevada (Humboldt), Sierra Pacific will borrow funds from Humboldt to finance part of Sierra Pacific's undivided 50% interest in the pollution control facilities at North Valmy Station Unit 2 at North Valmy, Nevada.

Humboldt will furnish funds to Sierra Pacific from funds derived by Humboldt from the issuance and sale of Humboldt's bonds, up to a maximum of \$55,000,000 face value, described as "Floating Rate Monthly Demand Pollution Control Revenue Bonds (Sierra Pacific Power Company Project) Series 1983". Sierra Pacific will repay the funds borrowed from Humboldt by depositing with a Trustee, from time to time, amounts equal to those required by Humboldt to pay the obligations according to the terms of the aforesaid revenue bonds issued by Humboldt. The payments to be made by Sierra Pacific will be backed by an irrevocable letter of credit issued by Citibank, N.A. A draft of the Indenture of Trust securing the bonds to be issued by Humboldt has been reviewed by the Commission's Revenue Requirements Division.

The bonds to be issued by Humboldt are described as "floating rate demand notes (FRDN's)". They are nominally long-term (30 year) instruments but carry a short-term interest rate because they have a monthly bondholder "put" option. Under the

"put" option, a bondholder may redeem by "putting" or placing the bond for redemption on any interest payment date, usually the first of the month by giving notice to the Trustee as provided. The bondholder receives 100% of the principal amount of the bond plus accrued interest. This payment to the bondholder would be made by Humboldt County which would then remarket the bond. Because the rate on the notes is reset monthly based on a short-term tax-exempt index, any notes put back can be remarketed at par. The floating rate demand note offers the potential of longer term financing at very short-term rates.

The term of the letter of credit securing the FRDN's is 10 years at which time it is to be extended or replaced with a letter of credit that would offer the bonds a comparable rating. The letter of credit provides liquidity if bonds are "put" on short notice, and it also provides high grade security which is a requirement of the tax-exempt money market funds, the principal buyers of short-term tax-exempt securities. Monthly payments of interest or principal are to be funded through a drawdown of the letter of credit. Sierra Pacific will receive monies to pay the letter of credit from the proceeds of bonds that have been put and then remarketed. Sierra Pacific will, under the reimbursement agreement with the bank, simultaneously repay the bank and the full amount of the letter of credit will be reinstated.

Sierra Pacific has a one-time option on any monthly interest payment to change the interest rate from a short-term to a long-term fixed interest rate. This gives Sierra Pacific the opportunity to finance at low cost short-term rates and yet convert to a long-term fixed interest rate if a lowering in the rates occurs, of which Sierra Pacific believes it should take advantage. That fixed interest rate will be priced according to a second tax-exempt index composed of similarly rated securities, as Sierra Pacific will choose, depending on whether Sierra Pacific will secure the long-term fixed rate bonds with a letter of credit or Sierra Pacific's First Mortgage Bonds. Both the short- and long-term index are created and maintained by Kenny Information Systems, Inc., a subsidiary of J. J. Kenny Co. Inc., a municipal bond broker. Kenny will be appointed the Indexing Agent.

The bonds will be remarketed by Kidder Peabody & Co. which will be appointed as the Remarketing Agent. Both the Indexing Agent and the Remarketing Agent can be replaced at Sierra Pacific's discretion.

Sierra Pacific alleges that the proposed method of financing as described can be beneficial to it, its investors, and ratepayers because the interest rate savings can be substantial. As of July 26, 1983, the overall cost for financing with FRDN's is estimated by Sierra Pacific to be 5.90% while the cost for a conventional long-term issue would approximate 11.11%.

Sierra Pacific estimates that the gross expenditure required for its construction program during calendar years 1983 through 1987 will approximate \$325,223,000. A summary of the utility's planned construction is as follows:

<u>Type of Facility</u>	<u>1983</u>	<u>1984-1987</u>
Electric Facilities:		
Generation - Valmy No. 2	\$44,629,000	\$ 76,136,000
Other	<u>21,976,000</u>	<u>132,261,000</u>
Total Electric	\$66,605,000	\$208,397,000
Gas Facilities	2,935,000	14,018,000
Water Facilities	6,095,000	26,955,000
Common Plant	<u>596,000</u>	<u>12,659,000</u>
Gross Construction Expenditures	\$76,231,000	\$262,029,000
Less:		
AFUDC	1,862,000	2,656,000
Customer Advances	<u>1,514,000</u>	<u>7,005,000</u>
Total Cash Requirements	\$72,855,000	\$252,368,000

The Commission's Revenue Requirements Division has reviewed Sierra Pacific's construction budget for 1983 and 1984-1987 and finds that the financing is necessary to fund the planned construction expenditures. The Division is not finding that the construction is necessary and reasonable or that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. Sierra Pacific, a Nevada corporation, is an electric public utility subject to the jurisdiction of this Commission.

2. The proposed financing program as outlined in the application and as set forth in the Agreement is for proper purposes and is not adverse to the public interest.

3. Sierra Pacific has need for external funds for the purposes set forth in its application.

4. The proposed Agreement is for lawful purposes, and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the Agreement may not be charged to operating expenses or to income.

5. There is no known opposition and no reason to delay the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

This order should be made effective on the date of signature to enable Sierra Pacific to enter into the Agreement expeditiously.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific) may enter into and execute a Financing Agreement (Agreement) and all related agreements and documents essentially upon the same terms as set forth in the draft of the Agreement submitted with the application.

2. Sierra Pacific may use the funds received under the Agreement to reimburse its treasury for construction expenditures for pollution control facilities in Humboldt County, Nevada, suitable in connection with operation of Unit 2 of the North Valmy Generating Station, and to finance in part its construction program now in progress and proposed during 1983-84.

3. Within 30 days after execution of the Agreement, Sierra Pacific shall submit a copy of it to the Commission.

This order is effective today.

Dated SEP 7 1983, at San Francisco, California.

Commissioner William T. Sogley
being necessarily absent, did
not participate.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Bodovitz, Executive Director